

**Connecticut General Law Committee  
Testimony in Support of Senate Bill 865  
Robert Y. Maples on behalf of Swisher International, Inc.**

February 24, 2011

Chairman Doyle, Chairman Taborsak, Ranking Members Witkos and Rembimbis and members of the Committee. My name is Bob Maples and I appear today on behalf of Swisher International, Inc. a manufacturer of smokeless tobacco products. I am in support of Senate Bill 865 to restore tax progressivity, fairness and competitive benefits to adult consumers of Moist Snuff Tobacco (MST) products.

Essential to my testimony are two phrases. One, ad valorem, means a tax based on the price of the product. The other, weight-based, means a tax based on the weight of the product.

**The Current Moist Snuff Tax Methodology is Eroding State Revenues**

Current CT tax revenues from moist snuff are eroding. According to recent DRS revenue information, state tax revenues on moist snuff have decreased 73% from 2006 through 2010. Conversely, the CT ad valorem tax on all Other Tobacco Products has increased by 113% over the same period.

The legislature increased the Moist Snuff tax – effective September 8, 2009- from \$0.40 cents per ounce to \$0.55 cents per ounce. After the tax increase, Moist Snuff tax collections continued to decline. In other states, there is a usual, short-lived, “bump” in tax collections, but here tax collections further eroded. Again, conversely, the tax rate on all Other Tobacco Products, taxed on an ad valorem basis, was increased from 20 to 27.5% of wholesale prices and generated significant new revenues.

**Senate Bill 865: Ad Valorem Revenues Continue Increasing**

What’s the difference—other than lost revenue? Ad valorem MST taxes works for all; 30 states, taxpaying constituents and competition. Ad valorem addresses and sweeps in all changes –price, value, volume, manufacturer price increases, federal tax increases and/or general inflation- in the Other Tobacco Product marketplace in real-time without any legislative action. Ad valorem is a progressive tax; benefits consumer choice, value and variety and is the proper tax for this economy, as is borne out within the OFA revenue numbers. The action in 2000 of converting ad valorem to a weighted tax created the environment for this stagnant MST revenue scenario.

OFA forecast this scenario. In documents provided in a 2001 debate, OFA estimated that MST weight-based revenues would decrease over time and that, if left under an ad valorem tax, revenues would be more stable and progressive.

**Restore Ad Valorem on all Other Tobacco Products.**

Given the charge of this Committee as relates to “fair trade and sales practices and consumer protection”, we wish to maintain the current evolving, consumer-centric market dynamic and

implore the legislative branch to help restore ad valorem and to achieve and capitalize on a true-state competitive market.

An ad valorem tax method is agnostic; it chooses neither winners nor losers. Manufacturers make independent business decisions, based on all economic factors, and decide to enter and compete in the marketplace based on those factors. Adult consumers win in that, with competition, affordable choice, variety and selection at fair and multiple consumer price points follows.

Arguments for the current weight-based system work for the proponents of this system, but not for Connecticut. The end-game of the industry proponents of a weight-based tax on MST is, in practice, a three-pronged strategy to expand market dominance: 1) Eliminate the progressive nature of an ad valorem tax; 2) Stabilize their dominant premium-based MST market share and, 3) Cap and shrink the state tax price-gap component.

The current weight-based tax accomplished the proponents' agenda, but did not honor their commitments to the State. The weight-based experiment in "using public policy as a competitive weapon" has failed to generate "stable and predictable" revenues. As one of the first states to convert to weight-based tax in the past decade, we hope you will be one of the first to restore ad valorem this decade.

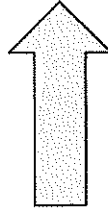
Armed with cognizance of the matter, we hope that the Committee will approve Senate Bill 865; raise revenues and restore a progressive tax methodology to MST products.

Thank you for this opportunity to voice support of this legislation.

## Connecticut Revenue Generated From Other Tobacco Products (OTP) Ad Valorem vs. Weight Base

### Snuff Tobacco Products Taxed Based on Weight

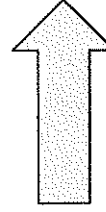
2006	\$1,757,258
2007	\$1,204,282
2008	\$1,081,355
2009	\$1,056,205
2010	\$1,018,384



- By taxing snuff based on weight, collections have decreased every year. Since 2006, the tax base has eroded by 73%!
- This method of taxation results in a loss of real dollars over time as it is decoupled from inflation.

### All Other OTP Taxed by Ad Valorem Method

2006	\$2,922,755
2007	\$3,897,321
2008	\$4,715,683
2009	\$4,319,202
2010	\$6,229,591



- Products that are taxed by the ad valorem method have increased tax revenues every year. Since 2006, revenues have increased by 113%!
- This method of taxation keeps up with inflation, generating additional revenue every year, without any legislative action.